



# Kentucky Tax Alert



A KRC PUBLICATION FOR THE TAX PROFESSIONAL

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## KRC Revises Schedule J—Kentucky Farm Income Averaging; Negative Taxable Income is Allowable in Base Years

Schedule J, as originally released to software developers and as printed in the 2000 Package K, states that taxable income on lines 5, 9, and 13 may not be less than zero. The Internal Revenue



Service has revised its position on negative taxable income in the base tax years. Accordingly, the federal Schedule J released in November 2000 provides for negative taxable income.

KRC has revised the Kentucky Schedule J to allow for negative taxable income. The revised schedule is available from KRC's Online Taxpayer Service Center at <http://www.state.ky.us/agencies/revenue>.

The adjustment of negative taxable income is required for capital loss carryover and net operating loss. Use the taxable income worksheet provided in the federal instructions for Schedule J and Kentucky taxable income to determine the appropriate amount of negative taxable income to use on Kentucky Schedule J, lines 5, 9, and 13. Complete a separate worksheet for each base year with negative taxable income.

## KRC Sets 2001 Tax Interest Rate at 10 Percent

Pursuant to KRS 131.183(1), the 2001 tax interest rate charged by KRC on unpaid and delinquent taxes has been set at 10 percent. Where applicable, the same rate is paid on refunds issued by KRC.

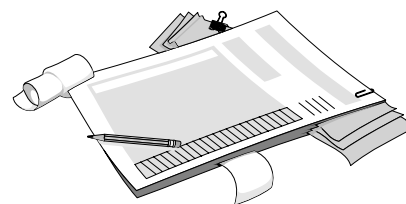
The rate, effective Jan. 1, 2001, is based on the prime interest rate charged by Kentucky banks during October 2000. A recent survey of Kentucky banks showed that the prevailing average prime interest rate in October was 9.5 percent, which was rounded by law to the nearest full percent (10 percent).



## KRC Offers Telephone Filing of Individual Income Tax Returns

During the 2001 individual income tax filing season, KRC will again partner with the Internal Revenue Service (IRS) in a joint TeleFile project. TeleFile will be offered statewide and will provide the opportunity for many Kentuckians to file their 2000 federal and Kentucky individual income tax returns via telephone.

Taxpayers who file a federal TeleFile return and meet the guidelines to file a **Form 740-EZ** may file their Kentucky return using the Federal/State TeleFile System. Taxpayers using TeleFile to file their returns should call the toll-free number provided in the federal TeleFile tax packet. Both the federal and state returns must be completed in the same call. After the federal information is entered, the system prompts the user to continue and enter the Kentucky information if the taxpayer is eligible. Much of the data entered for the federal return is used for the Kentucky return. Once the information necessary to calculate Kentucky tax is entered, the amounts are read back for the taxpayer's records and a confirmation number is issued. The data collected during TeleFile calls to the IRS is downloaded to KRC computer systems for complete processing.



Kentucky Telefilers should use Form 740-T to prepare their return for filing via telephone.

Last year, more than 54,000 Kentuckians took advantage of this filing method, many of them selecting the direct deposit option for their refunds. Direct deposit will be available for TeleFile refunds during the 2001 filing season.

KRC's TeleFile program was nationally recognized for its success by being honored with a Hammer Award for increasing efficiency in governmental operations. The Hammer Award was presented by the office of former Vice President Al Gore to representatives of KRC, the IRS, and the Indiana Department of Revenue late last year.

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## KRC Offers Electronic Filing of 2000 Individual Income Tax Returns

In cooperation with the Internal Revenue Service (IRS), KRC offers statewide electronic filing of 2000 individual income tax returns. This is the seventh year KRC has offered statewide electronic filing.

Electronic filing offers a faster turnaround for refunds as opposed to paper returns mailed to KRC and processed manually. With electronic filing, refund checks arrive in taxpayers' mailboxes in an average of two to three weeks. Taxpayers choosing the direct deposit option receive their refunds usually in less than 10 days.

Electronic filing for Kentucky returns is available to all interested parties who have been accepted in the federal electronic filing program and transmit returns to the IRS Cincinnati Service Center. To participate, applicants should submit Form 8633, Application to Participate in the Electronic Filing Program, to the IRS. No application form is necessary for KRC. The first day KRC will accept electronically filed returns is Jan. 12, 2001.

KRC offers direct deposit of refunds into taxpayers' accounts at banks or other financial institutions. Taxpayers may select direct deposit for Kentucky refunds whether or not they choose this option for their federal refunds. They may also choose separate accounts for direct deposit of federal and Kentucky refunds.

The approval process for Kentucky electronic filing software packages for 2000 began in November and continues. As software packages are approved, KRC provides a certification letter to developers. KRC suggests that software companies send copies of the acceptance letter to preparers. Preparers who have questions on approved software should call KRC's Electronic Filing Help Desk at (502) 564-5370.

Taxpayers who file their Kentucky returns electronically must complete and sign Form 8453-K, Individual Income Tax Declaration for Electronic Filing. Attach Form W-2/K-2, Wage and Tax Statement, and all supporting schedules to Form 8453-K. Please note that W-2s must be attached to the Kentucky Form 8453-K, despite any differing federal treatment of W-2s for electronic filing purposes.



Again during the 2001 filing season, preparers can select the frequency with which they mail completed Forms 8453-K to KRC.

Each electronic return originator (ERO) will receive an 8453-K Mailing Election Form which should be completed and returned to KRC.

This form allows EROs the option of electing to mail completed Forms 8453-K either after electronic return acknowledgment is received from KRC, monthly, quarterly, or at the end of the filing season. EROs will mail Forms 8453-K to KRC based on their mailing election. Mail Form 8453-K, with all necessary attachments, to Kentucky Revenue Cabinet, P.O. Box 518, Frankfort, KY 40602-0518.

For balance due returns, taxpayers must complete Form 740-V, Kentucky Electronic Payment Voucher. Submit this form, along with the payment, to KRC postmarked on or before April 16, 2001. The amount paid is the amount due on the electronically filed return.

Taxpayers should keep copies of their returns, Form 8453-K, and Form W-2/K-2. Copies of these forms must be retained by the preparer or transmitter for at least one year.

An electronic return is still considered outstanding until all follow-up documentation is completed and received by KRC. For the 2000 tax year, preparers with clients having outstanding documentation may be suspended from participation in the electronic filing program. Preparers with questions about their participation status should contact the Electronic Filing Help Desk at (502) 564-5370.

To obtain a copy of the Kentucky Handbook for Electronic Filers of Individual Income Tax Returns, or for more information about the electronic filing program, including questions about approved software or participation status, contact KRC's Electronic Filing Help Desk at (502) 564-5370. The handbook is also available on KRC's Web site at <http://www.state.ky.us/agencies/revenue>.



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## Homestead Exemption Increases to \$26,800 for 2001, 2002 Tax Years

The Homestead Exemption for personal property taxes has increased to \$26,800 for the 2001 and 2002 tax years. This is a \$1,400 increase over the 1999-2000 exemption, which presently stands at \$25,400. The amount of the exemption is recalculated every two years to reflect inflation.

The Homestead Exemption was originally established under a constitutional amendment in 1971 and is prescribed in KRS 132.810.

For the 2001 tax year, more than 325,000 elderly or disabled Kentuckians will realize more than \$90 million in property tax savings through the Homestead Exemption.

To qualify for the Homestead Exemption, a person must be at least 65 years old during the tax period or be classified as totally disabled by any public or private retirement system.

Eligible property must also be owned, occupied, and maintained by the taxpayer as a personal residence on the Jan. 1 assessment date. Any qualified person wishing to apply for a Homestead Exemption should contact the property valuation administrator in his or her county.



## Income Tax Assistance Available at KRC's Taxpayer Service Centers

Taxpayers who need assistance filing their 2000 Kentucky individual income tax returns may receive help during special *filing days* at KRC taxpayer service centers (TSCs) statewide. This annual program has offered assistance to Kentucky taxpayers for more than 40 years.

Before obtaining assistance from KRC, **taxpayers must bring completed copies of their 2000 federal income tax return and supporting federal schedules**. KRC staff cannot provide assistance in completing federal income tax forms.

TSCs will provide help to taxpayers on the following weekdays between 8:30 a.m. and 4 p.m. local time:

### Monday and Friday

Bowling Green, 1502 Westen St., (270) 746-7470

Louisville, 620 South Third St., Suite 102, (502) 595-4512

### Monday and Tuesday

Corbin, Falls Road Plaza, 1707 18th St., Suite 5, (606) 528-3322

Paducah, 555 Jefferson St., Suites 302/306, (270) 575-7148

Pikeville, Uniplex Center, 126 Trivette Drive, Suite 203, (606) 433-7675

### Tuesday and Wednesday

Ashland, 134 16th St., (606) 920-2037

### Tuesday and Thursday

Hazard, 233 Birch St., (606) 435-6017

Hopkinsville, 181 Hammond Drive (after mid-January), (270) 889-6521

Lexington, 301 East Main St., Suite 500, (859) 246-2165

Northern Kentucky, Turfway Ridge Office Park, 7310 Turfway Road, Suite 190, Florence, (859) 371-9049

Owensboro, 401 Frederica St., Building C, Suite 201, (270) 687-7301

Filing assistance is available in Frankfort Monday through Friday from 8:30 a.m. until 4 p.m. at the Individual Income Tax Branch, 200 Fair Oaks Lane, Second Floor.

Kentucky income tax forms can be ordered from the Support Services Branch, Kentucky Revenue Cabinet, 200 Fair Oaks Lane, Frankfort, KY 40620. Forms are also available at many banks, post offices, and libraries, through KRC's *TaxFax* by calling (502) 564-4459, or from KRC's Online TSC at <http://www.state.ky.us/agencies/revenue>.



## Kentucky Use Tax on Internet, Catalog Sales Can Be Reported on Income Tax Forms

Kentucky taxpayers are reminded that a use tax of 6 percent is due and payable for all catalog, Internet, and other retail purchases on which the state's 6 percent sales tax was not collected.

There is a widely held misconception that Kentucky use tax is a relatively new tax. It has existed since 1960 as a complement to the sales tax. When states first began imposing sales taxes, they soon realized that a corresponding use tax was necessary to protect in-state merchants from unfair competition from out-of-state sellers. The use tax is a 6 percent tax on purchases of tangible personal property from out-of-state retailers for storage, use or other consumption in Kentucky, on which Kentucky's 6 percent sales tax is not charged. This covers purchases made from catalogs, over the Internet, and in response to print or broadcast advertisements, in addition to items such as magazine subscriptions, purchases from music or video clubs, and other purchases on which no tax is paid. Without this backstop to the in-state sales tax, purchasers could avoid the 6 percent tax by purchasing from out-of-state catalog or Internet merchants, instead of local ones.

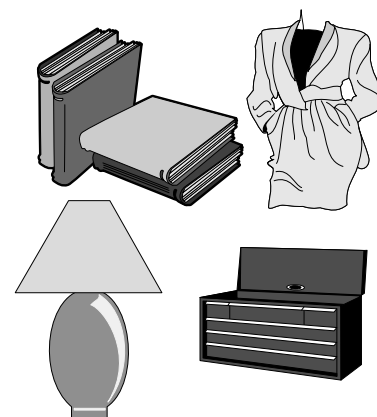
To make payment of this tax more convenient, KRC includes a line for reporting use tax obligations on Form 740 (line 23), Form 740-S (line 19), and Form 740-NP (line 19). Instructions for computing the amount of use tax due are included with the forms.

The popularity of catalog purchases and the phenomenal growth in e-commerce has made public understanding of use tax liability more important than ever. Many traditional merchants have developed their own Web sites to take advantage of the wave of retail trade that is anticipated from the Internet. Therefore, many Christmas e-shoppers will notice that the tax was computed for them, just as it is when they are physically buying items in the local store. However, other online merchants have elected not to charge

sales tax to their customers because these merchants are not physically located in Kentucky and are not legally responsible for collecting the tax. When tax is not collected in such cases, Kentucky purchasers are responsible for calculating and reporting the 6 percent use tax themselves. The widely publicized federal moratorium on Internet taxation has no effect on Kentuckians' use tax liabilities on Internet purchases.

Taxpayers should review their records of online purchases and other purchases from out-of-state sellers to determine if they owe Kentucky use tax on these transactions. The rise in Internet technology provides consumers with unprecedented shopping opportunities, but it also places a greater burden upon taxpayers to maintain records and to calculate tax liabilities for themselves. There are efforts underway both at the federal level, and cooperatively among states, to provide a more efficient use tax collection system. However, for the present time, individual taxpayers should be alert to their personal use tax liabilities. Tax professionals should advise their clients accordingly.

For further information regarding the collection and payment of Kentucky use tax, please contact KRC's Sales and Use Section at (502) 564-5170 or P.O. Box 181, Frankfort, KY 40602-0181.



## Tips for Filing 2000 Individual Income Tax Returns

Following the procedures listed below speeds the processing of 2000 Kentucky individual income tax returns.

- ☞ Do not alter wage and tax statements. If all copies of the wage and tax statement (Form K-2) are illegible, the taxpayer's employer must issue a corrected copy. Do not complete and file a return until all proper wage and tax statements are received. Do not substitute wage and tax statements unless repeated efforts to obtain a K-2 from the employer have failed.
- ☞ Use the adhesive mailing label attached to the income tax packet **only** if the name is correct. The label contains precoded information about the taxpayer. Taxpayers receiving labels with an incorrect name should not use these labels. Instead, print the correct information in the space provided on the return. Labels with only an incorrect address may be corrected and used. The labels enable KRC to verify receipt of the return and provide information to taxpayers using KRC's Automated Refund and Tax Information System (ARTIS), (502) 564-1600.
- ☞ Attach a complete copy of the federal return if the taxpayer received farm, business, rental, or capital gains income or loss.
- ☞ Taxpayers with differences in Kentucky and federal income must file Form 740 and report those differences on Schedule M, Kentucky-Federal Gross Income Modifications. Even if there is no difference in the amounts, entries must be made on lines 9 and 13 of Schedule M.
- ☞ Attach schedules showing any Kentucky net operating loss claimed.
- ☞ Married taxpayers filing separate returns must enter their spouse's complete name and Social Security number (SSN) on page 1 of the return.
- ☞ If a Form 2210-K is attached to the return, check the appropriate box on the return.
- ☞ Assemble the tax return properly. Staple returns only once in the upper left-hand corner. Place wage and tax statements horizontally in the center of the return and staple twice in the left margin of page 1 only. Make checks payable to the Kentucky State Treasurer, place on top of the wage and tax statement, and staple once in the left margin of page 1 only.
- ☞ Check the block above the signature line to choose either a complete forms package, or a preprinted label postcard, for 2001 tax returns.
- ☞ Enter the telephone number where the taxpayer can be reached weekdays between 8 a.m. and 4:30 p.m. in the appropriate place on Forms 740 and 740-S.
- ☞ Check all names, addresses, and SSNs for accuracy on wage and tax statements, returns, and schedules.
- ☞ Review the individual income tax return for mathematical accuracy and legibility, sign the return, and attach the wage and tax statement (Form K-2) before sealing the envelope. Both husband and wife must sign if filing separately on the combined return or if filing jointly.
- ☞ Keep copies of all state and federal returns. Exact duplicates make correspondence easier should KRC request information about the filed return. Practitioners should provide duplicate copies of returns as a part of the service rendered to clients.
- ☞ Use the blue or yellow envelope included with the income tax packet to mail the return to KRC. Use the yellow envelope for returns with payments enclosed. Use the blue envelope to file refund returns. If using other envelopes or mailing returns in bulk quantities, send returns with payments to ZIP code 40619-0008 and other returns to ZIP code 40618-0006.
- ☞ File returns as soon as possible to avoid the last-minute April rush.
- ☞ Mail completed returns to KRC on a regular basis. If filing returns in bulk quantities, mail no less than weekly.



### Hopkinsville TSC Moving

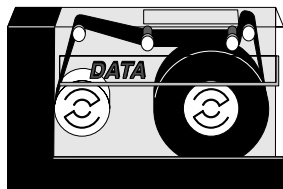
In mid-January 2001, the Hopkinsville Taxpayer Service Center will move from its present location of 105 Hammond Plaza, 4011 Ft. Campbell Blvd., to a new location at 181 Hammond Drive.

The telephone number, (270) 889-6521, and the fax number, (270) 889-6563, will remain the same.



## KRC Again Allows Submission of Information Via FTP

In a continuing effort to make compliance with Kentucky's tax laws easier, KRC again offers File Transfer Protocol (FTP) as an alternative method of submitting the Report of Annual Employee Wage and Tax Information for the 2000 tax year. KRC supports and requires the same file layouts as the Social Security Administration (SSA), with the exception that for tax year 2000, KRC does not accept the Magnetic Media Reporting Electronic Format (MMREF) via FTP. This means that employers who currently use tape or diskette layouts can easily use FTP.



Regulation 103 KAR 18:050, Section 5, requires employers with 250 or more employees doing business in Kentucky to magnetically or electronically report annual wage and tax information.

Accordingly, most employers who currently submit electronically to the SSA must also submit the appropriate information to KRC electronically. KRC is again enabling FTP technology to further automate these reporting requirements.

The underlying philosophy behind FTP is that since the data already exists electronically, it is logical to send this information securely via FTP rather than putting the information on a magnetic cartridge or diskette, paying a third party deliverer, and waiting for acknowledgment of receipt.

KRC is excited about FTP because it not only streamlines processing of the wage and tax information, it also offers an easier, more secure way for employers to meet the filing requirements.

KRC has developed a software application, which is available at no cost, to provide FTP capability. It is enveloped by an install shield to make installation easy. The FTP program and specifications can be downloaded from KRC's Online Taxpayer Service Center at <http://www.state.ky.us/agencies/revenue>. KRC will assign an identification number and clarify FTP procedures after an employer declares its intention to submit annual wage and tax reports to KRC via FTP.

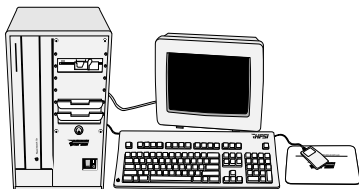
For more information on KRC's FTP application, contact Bradley Carroll by mail at Kentucky Revenue Cabinet, 200 Fair Oaks Lane, Station 27, Frankfort, KY, 40620; by telephone at (502) 564-6033, ext. 4800, by fax at (502) 564-9571; or by E-mail at [BradCarroll@mail.state.ky.us](mailto:BradCarroll@mail.state.ky.us).

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## KRC Tax Forms Available From *TaxFax*, Internet

The 2000 Kentucky individual income tax forms are available from *TaxFax*, KRC's fax-on-demand system, and from KRC's World Wide Web site.

*TaxFax* allows callers with touch-tone telephones and fax machines to receive KRC tax forms immediately. Callers without fax machines may use this service to request forms to be mailed.



To use *TaxFax*, dial (502) 564-4459 from *any* touch-tone phone. The call does not need to be made from the fax machine which will receive the forms. An automated attendant guides callers through the available options, including obtaining a current catalog of available forms with corresponding document numbers. Up to three documents may be ordered per call.

After selecting the documents, callers enter the fax number to which the forms are sent. Next, callers enter a telephone extension number to designate who receives the faxed forms. *TaxFax* then sends the requested documents to the caller.

Practitioners needing large quantities of forms should order Form 40A727, Kentucky Income Tax Forms Requisition, via *TaxFax* and mail the completed form to KRC.

Forms are also available from KRC's Online Taxpayer Service Center at <http://www.state.ky.us/agencies/revenue>. A link on that page directs users to the forms.

Forms are available as PDF files for all computer system formats which can use Adobe Portable Document Format files. Use of Adobe Acrobat Reader software is necessary to download, view, and print forms. This free software is available from Adobe's Web site at <http://www.adobe.com>. KRC's Web site also contains a link where users may obtain this software.

Taxpayers and preparers are reminded that Kentucky tax forms have been designed for use with KRC's scanning and imaging system. It is vital that only forms provided by KRC, or produced by approved computer software packages, be used. Data must be placed in specific areas of the return to be read correctly by the equipment. Use of photocopies or fax copies may delay processing and, in turn, delay refunds.

## 2000 Corporation Forms Changed to Reflect Provisions of Regulation 103 KAR 20:020

Part III, License Tax Computation, of both Form 720, Kentucky Corporation Income and License Tax Return, and Form 720S, Kentucky S Corporation Income and License Tax Return, have been revised to reflect the provisions of Regulation 103 KAR 20:020. This regulation was approved by the Administrative Regulations Review Subcommittee on Oct. 28, 1999, and applies to the computation of capital reported on returns filed for taxable years beginning after December 31, 1999.

In addition, KRC has corrected the 2000 instructions for line 13 of Part III of both Form 720 and Form 720S. The correct statute reference for this line is KRS 136.070(6), rather than KRS 136.070(a).

# T A X C A L E N D A R 2 0 0 1

**NOTE:** If a return due date falls on a scheduled holiday or weekend, returns will be due the next working day.

<b>January</b>	16	Estimated Corporation Income Tax/One Half Est. (FY ending 7/31)
	16	Estimated Corporation Income Tax/One Fourth Est. (FY ending 1/31)
	16	Estimated Corporation Income Tax/One Fourth Est. (FY ending 4/30)
	16	Estimated Tax/Individuals/One Fourth Est.
	22	Coal Severance Tax Returns (December Payment)
	22	Oil Production Tax Returns (December Payment)
	22	Monthly Sales Tax Returns (December Payment)
	22	Quarterly Sales Tax Returns
	22	Annual Sales Tax Returns
	22	Health Care Provider Tax Returns (December Payment)
	25	Monthly Motor Fuels Tax Returns (December Payment)
	25	Monthly Sales Tax Returns (Accelerated Payment)
<b>February</b>	1	Income Tax Withholding Returns/Electronic Funds Transfer (EFT) Filers/Annual Reconciliation
	1	Minerals and Gas Severance Tax Returns (December Payment)
	1	Monthly Income Tax Withholding Returns (December Payment and K-2s)
	1	Quarterly Income Tax Withholding Returns (Quarterly Payment and K-2s)
	1	Annual Income Tax Withholding Returns (Annual Payment and K-2s)
	1	Annual Report of Distilled Spirits in Bonded Warehouses (as of 1/1/00)
	12	Twice-Monthly Income Tax Withholding Returns (January 1 - January 31 Payment/EFT Payment)
	15	Estimated Corporation Income Tax/One Half Est. (FY ending 8/31)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 2/28)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 5/31)
	15	Monthly Income Tax Withholding Returns (January Payment)
	20	Coal Severance Tax Returns (January Payment)
	20	Oil Production Tax Returns (January Payment)
	20	Monthly Sales Tax Returns (January Payment)
	20	Health Care Provider Tax Returns (January Payment)
	26	Twice-Monthly Income Tax Withholding Returns (February 1 - February 15 Payment/EFT Payment)
	26	Monthly Motor Fuels Tax Returns (January Payment)
	26	Monthly Sales Tax Returns (Accelerated Payment)
<b>March</b>	1	Minerals and Gas Severance Tax Returns (January Payment)
	1	Watercraft Property Tax Return (as of 12/31/99)
	12	Twice-Monthly Income Tax Withholding Returns (February 16 - February 28 Payment/EFT Payment)
	15	Estimated Corporation Income Tax/One Half Est. (FY ending 9/30)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 3/31)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 6/30)
	15	Monthly Income Tax Withholding Returns (February Payment)
	15	Bank Franchise Tax Returns
	20	Coal Severance Tax Returns (February Payment)
	20	Oil Production Tax Returns (February Payment)
	20	Monthly Sales Tax Returns (February Payment)
	20	Health Care Provider Tax Returns (February Payment)
	26	Twice-Monthly Income Tax Withholding Returns (March 1 - March 15 Payment/EFT Payment)
<b>April</b>	26	Monthly Motor Fuels Tax Returns (February Payment)
	26	Monthly Sales Tax Returns (Accelerated Payment)
	2	Minerals and Gas Severance Tax Returns (February Payment)
	2	Electric Plant Board Property Tax Returns (as of 12/31/99)
	10	Twice-Monthly Income Tax Withholding Returns (March 16 - March 31 Payment/EFT Payment)
	16	Estimated Corporation Income Tax/One Half Est. (FY ending 10/31)
	16	Estimated Corporation Income Tax/One Fourth Est. (FY ending 4/30)
	16	Estimated Corporation Income Tax/One Fourth Est. (FY ending 7/31)
	16	Monthly Income Tax Withholding Returns (March Payment)
	16	Quarterly Estimated Tax Returns/Individuals (One Fourth Payment)
	16	Annual Individual Income Tax Returns
	20	Monthly Sales Tax Returns (March Payment)
	20	Quarterly Sales Tax Returns
	20	Coal Severance Tax Returns (March Payment)
	20	Oil Production Tax Returns (March Payment)
	20	Health Care Provider Tax Returns (March Payment)
	25	Twice-Monthly Income Tax Withholding Returns (April 1 - April 15 Payment/EFT Payment)
	25	Monthly Motor Fuels Tax Returns (March Payment)
	25	Monthly Sales Tax Returns (Accelerated Payment)

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May	1	Income Tax Withholding Returns/Electronic Funds Transfer (EFT) Filers/First Quarter Reconciliation
	1	Quarterly Income Tax Withholding Returns
	1	Minerals and Gas Severance Tax Returns (March Payment)
	1	Public Service Company Property Tax Returns (as of 12/31/99)
	1	Railroad Car Line Property Tax Returns (as of 12/31/99)
	10	Twice-Monthly Income Tax Withholding Returns (April 16 - April 30 Payment/EFT Payment)
	15	Intangible Personal Property Tax Return (Taxpayer will be billed later)
	15	Tangible Personal Property Tax Return (Taxpayer will be billed later)
	15	Estimated Corporation Income Tax/One Half Est. (FY ending 11/30)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 5/31)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 8/31)
	15	Monthly Income Tax Withholding Returns (April Payment)
	21	Monthly Sales Tax Returns (April Payment)
	21	Coal Severance Tax Returns (April Payment)
	21	Oil Production Tax Returns (April Payment)
	21	Health Care Provider Tax Returns (April Payment)
	25	Twice-Monthly Income Tax Withholding Returns (May 1 - May 15 Payment/EFT Payment)
	25	Monthly Motor Fuels Tax Returns (April Payment)
	25	Monthly Sales Tax Returns (Accelerated Payment)
June	1	Minerals and Gas Severance Tax Returns (April Payment)
	11	Twice-Monthly Income Tax Withholding Returns (May 16 - May 31 Payment/EFT Payment)
	15	Estimated Corporation Income Tax/One Half Est. (FY ending 12/31)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 6/30)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 9/30)
	15	Estimated Tax/Individuals/One Fourth Est.
	15	Monthly Income Tax Withholding Returns (May Payment)
	20	Monthly Sales Tax Returns (May Payment)
	20	Coal Severance Tax Returns (May Payment)
	20	Oil Production Tax Returns (May Payment)
	20	Health Care Provider Tax Returns (May Payment)
	25	Twice-Monthly Income Tax Withholding Returns (June 1 - June 15 Payment/EFT Payment)
	25	Monthly Motor Fuels Tax Returns (May Payment)
	25	Monthly Sales Tax Returns (Accelerated Payment)
July	2	Minerals and Gas Severance Tax Returns (May Payment)
	2	Cigarette License Annual Renewal Applications and License Fee
	10	Twice-Monthly Income Tax Withholding Returns (June 16 - June 30 Payment/EFT Payment)
	16	Estimated Corporation Income Tax/One Half Est. (FY ending 1/31)
	16	Estimated Corporation Income Tax/One Fourth Est. (FY ending 7/31)
	16	Estimated Corporation Income Tax/One Fourth Est. (FY ending 10/31)
	16	Monthly Income Tax Withholding Returns (June Payment)
	20	Coal Severance Tax Returns (June Payment)
	20	Oil Production Tax Returns (June Payment)
	20	Monthly Sales Tax Returns (June Payment)
	20	Quarterly Sales Tax Returns
	20	Health Care Provider Tax Returns (June Payment)
	25	Twice-Monthly Income Tax Withholding Returns (July 1 - July 15 Payment/EFT Payment)
	25	Monthly Motor Fuels Tax Returns (June Payment)
	25	Monthly Sales Tax Returns (Accelerated Payment)
	31	Income Tax Withholding Returns/Electronic Funds Transfer (EFT) Filers/Second Quarter Reconciliation
	31	Minerals and Gas Severance Tax Returns (June Payment)
	31	Quarterly Income Tax Withholding Returns
August	10	Twice-Monthly Income Tax Withholding Returns (July 16 - July 31 Payment/EFT Payment)
	15	Estimated Corporation Income Tax/One Half Est. (FY ending 2/28)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 8/31)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 11/30)
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	31	Minerals and Gas Severance Tax Returns (July Payment)

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## 2000 FEDERAL/KENTUCKY INDIVIDUAL INCOME TAX DIFFERENCES

*Kentucky income tax law is based on the federal income tax law in effect on December 31, 1999. The Revenue Cabinet generally follows the administrative regulations and rulings of the Internal Revenue Service in those areas where no specific Kentucky law exists.*

The chart below provides a quick reference guide to the major federal/Kentucky differences. It is not intended to be all inclusive. Items not listed may be referred to the Revenue Cabinet to determine Kentucky tax treatment.

PROVISION	FEDERAL TAX TREATMENT	KENTUCKY TAX TREATMENT
1. Interest from Federal Obligations	Taxable	Exempt
2. Retirement Income from:		— — — — —
Commonwealth of Kentucky Retirement Systems	Taxable	Partially exempt if retired after December 31, 1997; exempt if retired before January 1, 1998; Schedule P may be required
Kentucky Local Government Retirement Systems	Taxable	
Federal and Military Retirement Systems	Taxable	— — — — —
3. Pensions and Annuities Starting After 7/1/86 and Before 1/1/90	3-year recovery rule eliminated	3-year recovery rule retained
4. Other Pension and Annuity Income	Taxable	100% excludable up to \$36,414; Schedule P may be required
5. Benefits from U.S. Railroad Retirement Board	May be taxable	Exempt; Schedule P may be required
6. Social Security Benefits	May be taxable	Exempt
7. Capital Gains on Sale of Kentucky Turnpike Bonds	Taxable	Exempt
8. Other States' Municipal Bond Interest Income	Exempt	Taxable
9. Kentucky Local Government Lease Interest Payments	Taxable	Exempt
10. Long-Term Care Insurance Premiums	Limited deduction as self-employed health insurance	100% adjustment to gross income
11. Medical and Dental Insurance Premiums	Limited deduction as self-employed health insurance	100% adjustment to gross income
12. Capital Gains on Property Taken by Eminent Domain	Taxable	Exempt
13. Election Workers—Income for Training or Working at Election Booths	Taxable	Exempt
14. Artistic Contributions	Noncash contribution allowed as itemized deduction	Appraised value allowed as itemized deduction or adjustment to income
15. State Income Taxes	Deductible	Nondeductible
16. Leasehold Interest—Charitable Contribution	May be deductible	Deductible; Schedule HH required
17. Kentucky Unemployment Tax Credit	No credit allowed	\$100 per certified employee; Schedule UTC required
18. Work Opportunity Credit (federal Form 5884)	Tax credit allowed; wage expense reduced by amount of credit	No credit allowed; entire wage expense is deductible
19. Welfare to Work Credit (federal Form 8861)	Tax credit allowed; wage expense reduced by amount of credit	No credit allowed; wage expense reduced by amount of federal credit
20. Child and Dependent Care Credit	Tax credit based on expenses	20% of federal credit
21. Low Income Credit	No credit allowed	Decreasing tax credit allowed
22. Recycling and/or Composting Equipment Tax Credit	No credit allowed	Tax credit allowed; Schedule RC or RC(K-1) required
23. Taxpayer who may be Claimed as Dependent on Another's Return (i.e., full-time student)	May not claim self	May claim self
24. Child's Income Reported by Parent	Permitted; taxed at parent's rate	Not permitted
25. National Tobacco Settlement Income	Not determined	Exempt
26. Skills Training Investment Tax Credit	No credit allowed	Tax credit allowed; Schedule TC required
27. Kentucky Investment Fund Tax Credit	No credit allowed	Tax credit allowed; Schedule TC required

## Judge Orders Tax Credit on Used Cars Purchased Out of State

On Jan. 3, 2001, Jefferson Circuit Court Judge Lisabeth Hughes Abramson ruled that the Kentucky statute which allows a trade-in credit against the 6 percent motor vehicle usage tax imposed on used cars purchased in Kentucky, but denies the trade-in credit for used cars purchased out of state, is unconstitutional under the Commerce Clause of the U.S. Constitution. The judge further ordered the Commonwealth to grant the trade-in allowance on all purchases of used motor vehicles when another used motor vehicle is traded as part of the same transaction. On Jan. 5, 2001, KRC directed the county clerks to implement the change immediately.

In the case, *McGaren et al v. Comm., Revenue Cabinet*, the plaintiffs have asked the judge to certify a class of similarly situated taxpayers and are seeking refunds of taxes previously paid. No ruling has been issued on these matters, so it is uncertain at this time how many taxpayers may be affected or the amount of any potential refunds.

More than 560,000 vehicles come into Kentucky from out of state each year. As many as 20,000 of those vehicles may involve the trade-in credit issue. According to KRC Secretary Mike Haydon, the records on new registrations of used vehicles are maintained without distinction as to where the purchase was made or whether a trade-in was involved.

The motor vehicle usage tax produces more than \$350 million annually, representing more than one-third of the state's annual Road Fund receipts. It is estimated that the court's ruling could result in a recurring annual revenue loss to the Road Fund of \$6 to \$7 million.



If a taxpayer purchased a used vehicle out of state and traded in a vehicle previously registered in Kentucky, he or she may be entitled to a refund if ordered by the court. A protective refund claim should be submitted to KRC. A form for providing the necessary information is available in all 120 county clerks' offices, or may be downloaded immediately from KRC's Web site at <http://www.state.ky.us/agencies/revenue>.

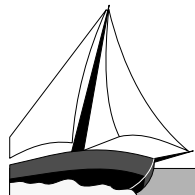
Expansion of the trade-in credit to vehicles purchased out of state was proposed as part of the Patton administration's tax reform initiative during the 2000 General Assembly. "I accept Judge Abramson's ruling," Governor Paul Patton stated. "In fact, I proposed this very change before the 2000 General Assembly. To continue to defend a statute so clearly flawed would bring more discredit to the state tax system. This is simply an issue of fairness," said Patton.

## Taxpayers Reminded to File Property Tax Returns

Kentucky residents are reminded to report their personal property for taxation by May 15, 2001. The Intangible Personal Property Tax Return, Form 62A376, and the Tangible Personal Property Tax Return, Form 62A500, must be filed with either the property valuation administrator (PVA) of the county of taxable situs, or KRC's Department of Property Valuation in Frankfort.

Items that should be listed on the intangible tax return include: bonds, notes, mortgages, land contracts, accounts receivable, life insurance contracts, and similar items. Extensions may be granted for individuals filing intangible returns until the federal income tax filing date approved by the Internal Revenue Service.

Tangible personal property includes, but is not limited to, business furnishings and equipment, watercraft, aircraft, manufacturing machinery, inventories, materials and supplies, and construction and mining equipment.



The intangible property tax return is included in the corporation and individual income tax packets and in Package K, or may be obtained from KRC or any PVA's office. The tangible personal property tax return is too large to be included with the individual income tax packets. However, it is also available in Package K or from KRC or any PVA's office. Forms may also be downloaded from KRC's Online Taxpayer Service Center at <http://www.state.ky.us/agencies/revenue>.

For more information regarding the filing of personal property tax returns, contact the Department of Property Valuation's Division of State Valuation at (502) 564-2557.

## Court Case Updates

**Property Tax**—On Oct. 18, 2000, the Kentucky Supreme Court denied the taxpayers' motions for discretionary review in *Owens-Brockway Plastic Products, Inc. v. Revenue Cabinet*, 2000-SC-483-D and in *Owens-Illinois Labels, Inc. v. Revenue Cabinet*, 2000-SC-484-D.

In these cases, the Court of Appeals had reviewed the issue of whether a privately owned leasehold interest in an industrial building that is owned by a qualifying tax-exempt local governmental entity and financed with industrial revenue bonds pursuant to KRS Chapter 103.200 et seq., is subject to taxation at full state and local tax rates after the industrial revenue bonds have been fully redeemed and retired. Reasoning that tax exemptions such as those involved in this case (KRS 132.020(1) and 132.200(8)) are disfavored and strictly construed, the court held that the privately owned leasehold interests in industrial buildings owned by local governmental entities are taxable at full state and local tax rates after the industrial revenue bonds are fully redeemed and retired.

With the Supreme Court's action, these cases are now final. The opinion of the Court of Appeals was *To Be Published* and may be cited as *Owens-Illinois Labels, Inc. v. Revenue Cabinet*, Ky. App., 27 S.W.3d 798 (2000).

**Sales and Use Tax**—On Dec. 21, 2000, the Kentucky Supreme Court rendered a decision in *Revenue Cabinet v. Hubbard d/b/a Stone Age Dental Laboratory*, 1999-SC-0171-DG and 1999-SC-0992-DG. This case concerned the application of the exemption contained in KRS 139.472 for prosthetic devices to a dentist's purchases of dentures, crowns, bridges, etc. Specifically, the issue

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**Your Opinion Counts**

KRC is updating its Strategic Plan. As part of our revision, we are conducting surveys of key stakeholders. Watch your mail for this survey. We urge all recipients to respond. Your input is vital to our planning efforts.

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before the Supreme Court was whether the dental items were "prosthetic devices . . . individually designed, constructed or altered solely for the use of a particular crippled person so as to become a brace, support, supplement, correction or substitute for the bodily structure . . ."

The court began its analysis with the principle that tax exemption statutes such as KRS 139.472 are narrowly construed. In this case, the court stated that it viewed the resolution of the issue before it as turning on the meaning of the word "crippled." The meaning of "crippled" in KRS 139.472, the court held, embraced the definition that considered someone to be crippled when he or she is deprived of the use of a limb.

The court further reasoned that "[w]hile we are unable to find a definition for the term 'bodily structure,' the use of the definite article 'the' indicates that the statute refers to the entire body and not to discrete parts or components that could be considered a 'bodily structure,' e.g., the mouth." The Supreme Court concluded that "[i]n other words, a person who needs dentures, crowns, bridges or braces for his or her teeth is not 'crippled' within the meaning of the statute."

The taxpayer has filed a petition for rehearing. Therefore, this case is not final.

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Kentucky and its citizens, and admin-  
ister the tax laws of the Common-  
wealth in a fair and impartial manner.

Kentucky Revenue Cabinet  
Mission Statement

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REVENUE CABINET  
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